

# **City of Willowick**

**Basic Financial Statements  
For The Year Ended December 31, 2013**





# Dave Yost • Auditor of State

City Council  
City of Willowick  
30435 Lakeshore Blvd.  
Willowick, OH 44095

We have reviewed the *Independent Auditor's Report* of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Willowick is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 2, 2014

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# City of Willowick, Ohio

For The Year Ended December 31, 2013

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## Independent Auditor's Report

Members of the City Council  
Willowick, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Members of the City Council  
Willowick, Ohio

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Fire Emergency Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 3 to the basic financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Ciani & Panichi, Inc.*

Cleveland, Ohio  
June 17, 2014

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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The discussion and analysis of the City of Willowick's ("City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

Key financial highlights for 2013 are as follows:

- ◆ The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$42,345,305. Of this amount, \$4,188,384 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$929,949 from 2012. The most significant increases were equity in pooled cash and cash equivalents of \$653,327 and taxes receivable of \$308,747.
- ◆ Total liabilities decreased by \$398,296 from 2012. The main factor contributing to this decrease was the reduction of \$387,316 of long-term liabilities.
- ◆ In total, the net position in governmental activities increased by \$1,020,485 during 2013. The net position in business-type activities increased \$341,040 from 2012.

**Using this Annual Financial Report**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City's basic financial statements are comprised of three components:

- 1) Government-wide financial statements,
- 2) Fund financial statements, and
- 3) Notes to the financial statements

***Government-wide Financial Statements – Reporting the City of Willowick as a Whole***

*Statement of Net Position and the Statement of Activities*

The Statement of Net Position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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The Statement of Activities presents information showing how the City's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system is reported here.

***Fund Financial Statements – Reporting the City of Willowick's Most Significant Funds***

*Fund Financial Statements*

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

The City maintains 30 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances, for the general fund, fire emergency special revenue fund, municipal tax increment equivalent debt service fund and the capital improvement capital projects fund, all of which are considered to be major funds.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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*Proprietary Funds*

The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 27 of this report.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The City has only one agency fund to report within the fiduciary fund category. Agency funds are reported on a full accrual basis and only present a Statement of Fiduciary Net Position.

*Notes to the Financial Statements*

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 31 of this report.

**Government-wide Financial Analysis – City of Willowick as a Whole**

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

The Statement of Net Position and the Statement of Activities are divided into the following categories:

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position (Assets and Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources)
- Program Expenses and Revenues
- General Revenues
- Net Position Beginning and End of Year

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2013

Table 1 provides a summary of the City's net position for 2013 as compared to 2012.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Current and other assets	\$ 12,697,580	\$ 12,095,984	\$ 2,003,776	\$ 1,566,149	\$ 14,701,356	\$ 13,662,133
Capital assets, net	<u>31,510,072</u>	<u>31,467,939</u>	<u>5,431,487</u>	<u>5,582,894</u>	<u>36,941,559</u>	<u>37,050,833</u>
<i>Total assets</i>	<u>44,207,652</u>	<u>43,563,923</u>	<u>7,435,263</u>	<u>7,149,043</u>	<u>51,642,915</u>	<u>50,712,966</u>
<b>Liabilities:</b>						
Current liabilities	847,780	852,737	169,663	175,686	1,017,443	1,028,423
Long-term liabilities:						
Due within one year	928,021	972,483	65,107	75,255	993,128	1,047,738
Due in more than one year	<u>2,717,529</u>	<u>3,011,586</u>	<u>804,977</u>	<u>843,626</u>	<u>3,522,506</u>	<u>3,855,212</u>
<i>Total liabilities</i>	<u>4,493,330</u>	<u>4,836,806</u>	<u>1,039,747</u>	<u>1,094,567</u>	<u>5,533,077</u>	<u>5,931,373</u>
<b>Deferred inflows of resources:</b>						
Property taxes	3,531,391	3,578,593	-	-	3,531,391	3,578,593
Payments in lieu of taxes	<u>233,142</u>	<u>219,220</u>	<u>-</u>	<u>-</u>	<u>233,142</u>	<u>219,220</u>
<i>Total deferred inflows of resources</i>	<u>3,764,533</u>	<u>3,797,813</u>	<u>-</u>	<u>-</u>	<u>3,764,533</u>	<u>3,797,813</u>
<b>Net position:</b>						
Net investment in capital assets	29,012,844	29,064,871	4,627,949	4,732,040	33,640,793	33,796,911
Restricted for:						
Capital projects	2,062,085	1,636,708	-	-	2,062,085	1,636,708
Debt service	264,631	217,458	-	-	264,631	217,458
Other purposes	2,189,412	2,310,467	-	-	2,189,412	2,310,467
Unrestricted	<u>2,420,817</u>	<u>1,699,800</u>	<u>1,767,567</u>	<u>1,322,436</u>	<u>4,188,384</u>	<u>3,022,236</u>
<i>Total net position</i>	<u>\$ 35,949,789</u>	<u>\$ 34,929,304</u>	<u>\$ 6,395,516</u>	<u>\$ 6,054,476</u>	<u>\$ 42,345,305</u>	<u>\$ 40,983,780</u>

The largest portion (79.44 percent) of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2013, was \$33,640,793. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position, \$4,516,128, represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net position \$4,188,384 may be used to meet the government's ongoing obligations to citizens and creditors.

The total net position of the City increased \$1,361,525 from 2012. The following factors were primarily responsible for this increase:

- An increase in equity in pooled cash and cash equivalents of \$653,327
- An increase in taxes receivable of \$308,747
- A decrease in capital assets, net of \$109,274
- A decrease in long-term liabilities of \$387,316

The business-type activities net position increased by \$341,040 in 2013. The City generally can only use the net position to finance the continuing operations of the sewer system.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2013

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year.

Table 2  
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,071,121	\$ 1,129,336	\$ 2,508,680	\$ 2,496,516	\$ 3,579,801	\$ 3,625,852
Operating grants and contributions	132,962	268,685	-	-	132,962	268,685
Capital grants and contributions	<u>1,338,959</u>	<u>125,815</u>	<u>34,507</u>	<u>3,676</u>	<u>1,373,466</u>	<u>129,491</u>
Total program revenues	<u>2,543,042</u>	<u>1,523,836</u>	<u>2,543,187</u>	<u>2,500,192</u>	<u>5,086,229</u>	<u>4,024,028</u>
<b>General revenues:</b>						
Property and other local taxes	3,971,208	4,268,762	35,128	35,486	4,006,336	4,304,248
Municipal income tax	2,786,299	2,432,055	-	-	2,786,299	2,432,055
Grants and entitlements not restricted to specific programs	2,647,141	2,451,658	-	-	2,647,141	2,451,658
Investment income	3,591	3,798	-	-	3,591	3,798
Miscellaneous income	<u>148,453</u>	<u>50,984</u>	<u>-</u>	<u>-</u>	<u>148,453</u>	<u>50,984</u>
Total general revenues	<u>9,556,692</u>	<u>9,207,257</u>	<u>35,128</u>	<u>35,486</u>	<u>9,591,820</u>	<u>9,242,743</u>
Total revenues	<u>12,099,734</u>	<u>10,731,093</u>	<u>2,578,315</u>	<u>2,535,678</u>	<u>14,678,049</u>	<u>13,266,771</u>
<b>Program expenses:</b>						
General government	1,885,424	2,118,033	-	-	1,885,424	2,118,033
Security of persons and property	5,118,594	5,245,649	-	-	5,118,594	5,245,649
Public health and welfare	101,426	102,327	-	-	101,426	102,327
Transportation	2,259,909	2,468,433	-	-	2,259,909	2,468,433
Leisure time activities	973,473	1,083,744	-	-	973,473	1,083,744
Community development	431,839	456,791	-	-	431,839	456,791
Basic utility services	285,989	1,313,505	-	-	285,989	1,313,505
Interest and fiscal charges	22,595	24,930	-	-	22,595	24,930
Sewer	-	-	<u>2,237,275</u>	<u>1,864,950</u>	<u>2,237,275</u>	<u>1,864,950</u>
Total program expenses	<u>11,079,249</u>	<u>12,813,412</u>	<u>2,237,275</u>	<u>1,864,950</u>	<u>13,316,524</u>	<u>14,678,362</u>
Increase (decrease) in net assets before transfers	1,020,485	(2,082,319)	341,040	670,728	1,361,525	(1,411,591)
Transfers	-	(12,115)	-	12,115	-	-
Change in net position	1,020,485	(2,094,434)	341,040	682,843	1,361,525	(1,411,591)
Net position beginning of year	<u>34,929,304</u>	<u>37,023,738</u>	<u>6,054,476</u>	<u>5,371,633</u>	<u>40,983,780</u>	<u>42,395,371</u>
Net position end of year	<u>\$ 35,949,789</u>	<u>\$ 34,929,304</u>	<u>\$ 6,395,516</u>	<u>\$ 6,054,476</u>	<u>\$ 42,345,305</u>	<u>\$ 40,983,780</u>

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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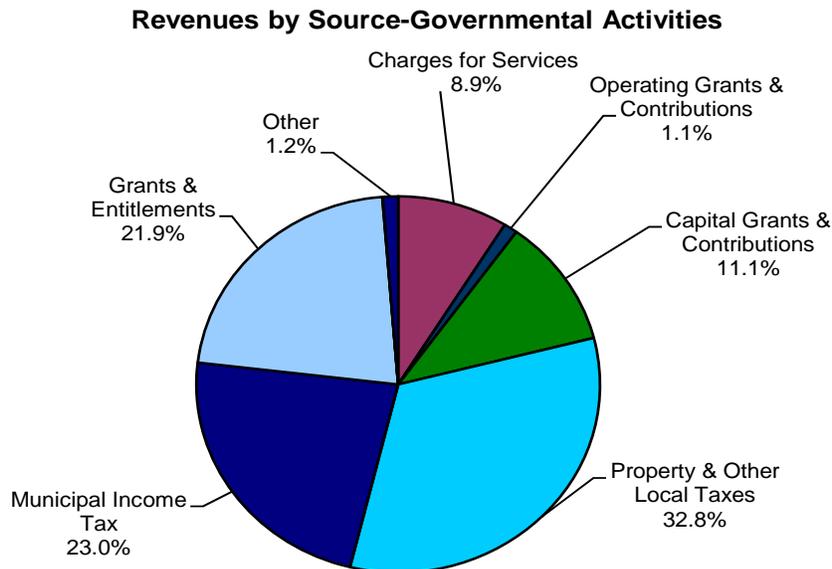
*Governmental Activities*

Governmental activities increased the City's net position by \$1,020,485 during 2013. Several revenue sources fund the governmental activities with the City property tax being the largest contributor. The property and other local tax revenue for 2013 was \$3,971,208, representing a decrease of \$297,554 from 2012.

The City's income tax revenue source is the second largest contributor with a rate of 2 percent on gross income, which has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5 percent tax credit up to a maximum of 1.75 percent. During 2013, the revenue generated from this tax amounted to \$2,786,299, representing an increase of \$354,244. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2011.

Grants and entitlements, which include local government funds, accounted for \$2,647,141 of the governmental revenue in 2013. The revenue increased \$195,483 from 2012 due to writing down the local government receivable in 2012. This caused the revenue to be lower than expected in 2012.

The revenue received from capital grants and contributions in 2013 was \$1,338,959 and represented an increase of \$1,213,144 from 2012. The increased revenue was attributable to donated capital assets from the Ohio Department of Transportation (ODOT). ODOT funded and managed a signalization project in the City that resulted in all new traffic signals within the City limits.



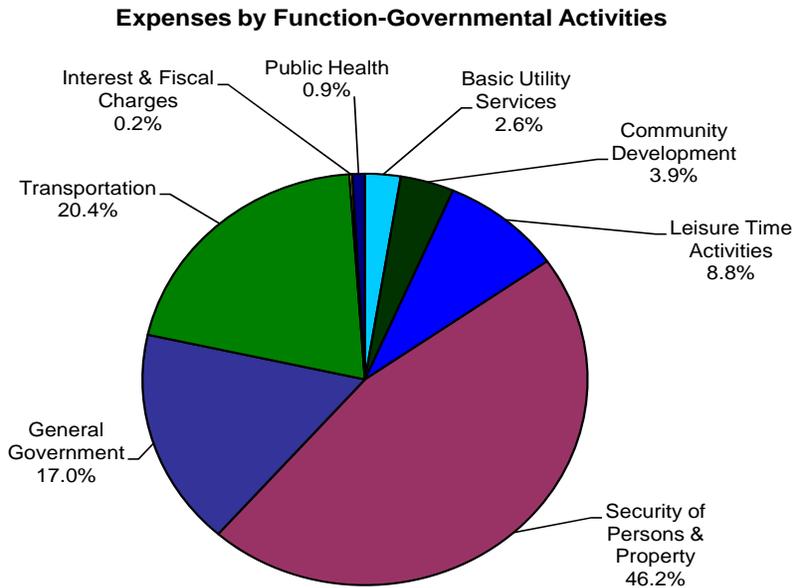
**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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Total program expenses for governmental activities were \$11,079,249 in 2013, representing a decrease of \$1,734,163 from 2012.

Security of Persons and Property represented 46.2 percent of the governmental expenses. During 2013, \$5,118,594 was spent for this program, representing a decrease of \$127,055 from the previous period. Currently, there are 23 full-time sworn officers in the Police Department. The Department continues to place a strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The majority of the cost of operating the department comes from the general fund. In addition to the department's operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy. The fire department consists of 1 full-time Chief and 58 part-time firefighters, of which 45 are full-trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department handled 2,127 calls for assistance of which approximately 1,745 were for EMS and 382 were for fire and fire-related incidents. The total cost of operating the Fire and EMS Department was split between the general fund (38 percent) and the EMS levy fund (62 percent). In addition to the operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy and the EMS levy funds.



Transportation costs accounted for program expenses totaling 20.4 percent of the 2013 governmental expenses. In 2013, transportation costs were \$2,259,909, representing a decrease of \$208,524 as compared to 2012. The decrease was due to decline in street resurfacing maintenance costs.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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General government accounted for \$1,885,424, or 17.0 percent, of the 2013 governmental expenses. Expenses for this program decreased \$232,609, or 11.0 percent, from 2012. The major factor affecting this decrease was due to the claims liability the City recorded in 2012 for \$100,000 related to a settled lawsuit. The actual claims expenditures in 2013 were only \$16,344. The estimate was written down against the general government expense in 2013.

In 2013, leisure time activities accounted for \$973,473, or 8.8 percent, of the governmental expenses. Expenses for this program decreased \$110,271, or 10.2 percent, as compared to 2012. The decrease is due to a maintenance project on the community center parking lot that occurred in 2012 and did not take place in 2013.

Basic utility services accounted for \$285,989, or 2.6 percent of the 2013 governmental expenses. The expenses for this program decreased \$1,027,516 from 2012. This significant decrease was caused by the City not funding the cost of trash pickup in 2013. This cost was paid by the citizens in 2013.

#### *Business-Type Activities*

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$341,040. Personal and contractual expenses increased by \$375,534 in 2013 due to flood related debris removal costs.

### **The City's Funds**

#### *Governmental Funds*

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$13,146,503 and expenditures and other financing uses of \$12,826,463.

At the end of 2013, the City's governmental funds reported combined ending fund balances of \$5,415,153, an increase of \$320,040. Of the total amount, \$463,717 is unassigned at year-end.

#### *General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2013

For the general fund, actual revenues and other financing sources were \$497,322 more than the final budget estimates of \$6,727,385. The increase from the final budget to the actual revenues was mainly caused by an increase in intergovernmental, miscellaneous income and municipal income taxes. The final budget estimates of revenue, including other financing sources, did not change from the original budget. The final appropriations of \$7,438,318, including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$7,177,748 or \$260,570 less than anticipated, due to conservative spending. The decrease was mainly due to lower actual general government, security of persons and property and leisure time activities expenditures compared to the final budgeted amounts. The final budget of expenditures, including other financing uses, increased approximately \$154,000 from the original budget. The main cause of the increase was the budgeting for additional other financing uses during the year.

*Business-Type Funds*

The City's major Enterprise fund consists of the sewer fund. The basic financial statements for the major fund are included in this report.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer fund. The basic proprietary fund financial statements can be found on pages 27 through 29 of this report.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2013, the City had \$36,941,559 invested in construction in progress, land and land improvements, buildings and improvements, machinery and equipment and infrastructure net of accumulated depreciation. Capital assets for governmental activities account for \$31,510,072 and business-type activities account for \$5,431,487 of the City's total net capital assets.

Governmental activities reported an increase of \$42,133 in capital assets. Capital asset additions for governmental activities totaling \$1,274,673 were offset by \$37,540 in net deletions and \$1,195,000 of depreciation expense. Capital assets for business-type activities decreased \$151,407. Capital asset additions and net deletions for business-type activities totaled \$-0- in 2013. The City recorded \$151,407 of depreciation expense for business-type activities.

Table 3 shows fiscal 2013 balances of capital assets as compared to 2012:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Construction in progress	\$ -	\$ 150,180	\$ -	\$ -	\$ -	\$ 150,180
Land and land improvements	1,784,356	1,778,064	-	-	1,784,356	1,778,064
Buildings and improvements	9,690,946	9,684,055	-	-	9,690,946	9,684,055
Machinery and equipment	5,462,640	5,661,392	562,648	605,773	6,025,288	6,267,165
Infrastructure	32,040,755	30,777,793	10,116,456	10,116,456	42,157,211	40,894,249
Less: Accumulated depreciation	<u>(17,468,625)</u>	<u>(16,583,545)</u>	<u>(5,247,617)</u>	<u>(5,139,335)</u>	<u>(22,716,242)</u>	<u>(21,722,880)</u>
Total capital assets	\$ <u>31,510,072</u>	\$ <u>31,467,939</u>	\$ <u>5,431,487</u>	\$ <u>5,582,894</u>	\$ <u>36,941,559</u>	\$ <u>37,050,833</u>

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2013

The City's largest capital asset category is infrastructure which includes roads, bridges, curbs and gutters, sidewalks, traffic signals and storm sewers.

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. The City seeks grants for infrastructure projects as well as for improvements to the City's facilities. These grants together with funds received from capital improvement levies that are restricted for specific purposes, and the issuance of Council approved notes, enabled the City to improve upon its capital assets and at the same time, pay cash or pay off any indebtedness on those assets in the short-term.

Major capital asset events for 2013 include the following:

- A \$1.3 million city-wide traffic signal upgrade, funded by the Ohio Department of Transportation
- Two vehicle replacements for the Police Department were purchased with capital levy funds
- A new power ambulance cot was purchased with capital levy funds

**Debt**

At December 31, 2013, the City of Willowick had \$4,515,634 in outstanding debt and compensated absences. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4  
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Long-term notes payable	\$ 2,100,000	\$ 2,280,000	\$ 560,000	\$ 590,000	\$ 2,660,000	\$ 2,870,000
OPWC loan payable	397,228	397,228	243,538	260,854	640,766	658,082
Capital Leases	-	5,840	-	-	-	5,840
Compensated absences	1,148,322	1,201,001	66,546	68,027	1,214,868	1,269,028
Claims and Judgments	-	100,000	-	-	-	100,000
<b>Total</b>	<b>\$ 3,645,550</b>	<b>\$ 3,984,069</b>	<b>\$ 870,084</b>	<b>\$ 918,881</b>	<b>\$ 4,515,634</b>	<b>\$ 4,902,950</b>

State law limits the amount of debt a City can issue in general obligation bonds to 10.5 percent of tax valuation. The City had a tax valuation of \$245,564,770 at the end of 2013. The City has borrowed approximately 9.31 percent of its debt limitation. The OPWC and compensated absences balances included in the above total are not subject to the limitation.

At December 31, 2013, the City had outstanding long-term notes of \$2,660,000. Total notes payable decreased \$210,000 from 2012. The notes consisted of \$2,660,000 of Various Purposes Improvement Notes that were issued in anticipation of the issuance of bonds for the Shoreland Crossings infrastructure, a judgment note to settle a claim approved by a court, and sanitary sewer improvements.

There were no outstanding general obligation bonds at year-end. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note 9 to the basic financial statements.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2013*

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**Current Related Financial Activities**

Management has been committed to providing the residents of the City of Willowick with full disclosure of the financial position of the City.

The City works extremely hard at living within our means and keeping our debt low. The Mayor, Council, and the Department Heads do an outstanding job in monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents.

In November 2012, the electorate approved a Charter change that allowed garbage collection costs to be billed directly to the residents. The change resulted in annual savings to the City of over \$1 million and will go toward offsetting approximately \$1.3 million in revenue losses due to cuts received from the State of Ohio and property devaluations.

On behalf of the City of Willowick, we personally thank Ciuni & Panichi, Inc., for their involvement and support in preparation of the basic financial statements. Ciuni & Panichi, Inc. has committed themselves toward leading the way and providing necessary guidance to enable us to reach a level of excellence.

**Contacting the City of Willowick's Finance Department**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Cheryl Benedict, City of Willowick, 30435 Lakeshore Boulevard, Willowick, Ohio 44095, telephone (440) 585-3700, or web site at [www.cityofwillowick.com](http://www.cityofwillowick.com)

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# City of Willowick, Ohio

## Statement of Net Position

**December 31, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 5,608,760	\$ 1,207,357	\$ 6,816,117
Taxes receivable	5,189,606	-	5,189,606
Accounts receivable	200,331	996,419	1,196,750
Accrued interest receivable	432	-	432
Intergovernmental receivable	1,477,596	-	1,477,596
Special assessments receivable	7,332	-	7,332
Materials and supplies inventory	13,523	-	13,523
Internal balances	200,000	(200,000)	-
Nondepreciable capital assets	956,842	-	956,842
Depreciable capital assets, net	<u>30,553,230</u>	<u>5,431,487</u>	<u>35,984,717</u>
Total assets	<u>44,207,652</u>	<u>7,435,263</u>	<u>51,642,915</u>
<b>Liabilities:</b>			
Accounts payable	316,271	11,015	327,286
Accrued wages and benefits	307,204	16,673	323,877
Intergovernmental payable	206,987	137,357	344,344
Accrued interest payable	17,318	4,618	21,936
<b>Long-term liabilities:</b>			
Due within one year	928,021	65,107	993,128
Due in more than one year	<u>2,717,529</u>	<u>804,977</u>	<u>3,522,506</u>
Total liabilities	<u>4,493,330</u>	<u>1,039,747</u>	<u>5,533,077</u>
<b>Deferred inflows of resources:</b>			
Property taxes	3,531,391	-	3,531,391
Payments in lieu of taxes	<u>233,142</u>	<u>-</u>	<u>233,142</u>
Total deferred inflows of resources	<u>3,764,533</u>	<u>-</u>	<u>3,764,533</u>
<b>Net Position:</b>			
Net investment in capital assets	29,012,844	4,627,949	33,640,793
<b>Restricted for:</b>			
Capital projects	2,062,085	-	2,062,085
Debt service	264,631	-	264,631
Other purposes	2,189,412	-	2,189,412
Unrestricted	<u>2,420,817</u>	<u>1,767,567</u>	<u>4,188,384</u>
Total net position	<u>\$ 35,949,789</u>	<u>\$ 6,395,516</u>	<u>\$ 42,345,305</u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Activities

### For The Year Ended December 31, 2013

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Government activities:				
General government	\$ 1,885,424	\$ 232,380	\$ 14,682	\$ -
Security of persons and property	5,118,594	348,405	31,412	1,500
Public health and welfare	101,426	-	-	-
Transportation	2,259,909	-	-	1,306,684
Leisure time activities	973,473	202,969	-	-
Community development	431,839	287,367	86,868	30,775
Basic utility services	285,989	-	-	-
Interest and fiscal charges	<u>22,595</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>11,079,249</u>	<u>1,071,121</u>	<u>132,962</u>	<u>1,338,959</u>
Business-type activities:				
Sewer	<u>2,237,275</u>	<u>2,508,680</u>	<u>-</u>	<u>34,507</u>
Totals	<u>\$ 13,316,524</u>	<u>\$ 3,579,801</u>	<u>\$ 132,962</u>	<u>\$ 1,373,466</u>

#### General revenues:

- Property and other local taxes levied for:
  - General purposes
- Municipal income taxes levied for:
  - General purposes
- Grants and entitlements not restricted to specific programs
- Investment income
- Miscellaneous income

Total general revenues and transfers

Change in net position

Net position beginning of year

Net position end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,638,362)	\$ -	\$ (1,638,362)
(4,737,277)	-	(4,737,277)
(101,426)	-	(101,426)
(953,225)	-	(953,225)
(770,504)	-	(770,504)
(26,829)	-	(26,829)
(285,989)	-	(285,989)
<u>(22,595)</u>	<u>-</u>	<u>(22,595)</u>
<u>(8,536,207)</u>	<u>-</u>	<u>(8,536,207)</u>
-	305,912	305,912
<u>(8,536,207)</u>	<u>305,912</u>	<u>(8,230,295)</u>
3,971,208	35,128	4,006,336
2,786,299	-	2,786,299
2,647,141	-	2,647,141
3,591	-	3,591
<u>148,453</u>	<u>-</u>	<u>148,453</u>
<u>9,556,692</u>	<u>35,128</u>	<u>9,591,820</u>
1,020,485	341,040	1,361,525
<u>34,929,304</u>	<u>6,054,476</u>	<u>40,983,780</u>
<u>\$ 35,949,789</u>	<u>\$ 6,395,516</u>	<u>\$ 42,345,305</u>

# City of Willowick, Ohio

## Balance Sheet Governmental Funds

**December 31, 2013**

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	<u>General</u>	<u>Fire Emergency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 1,365,829	\$ 398,861
Taxes receivable	3,428,181	539,842
Accounts receivable	55,523	133,468
Accrued interest receivable	415	-
Intergovernmental receivable	645,158	49,092
Special assessments receivable	7,332	-
Materials and supplies inventory	5,294	-
Interfund receivable	<u>225,000</u>	<u>-</u>
Total assets	\$ <u><u>5,732,732</u></u>	\$ <u><u>1,121,263</u></u>
 <b>Liabilities:</b>		
Accounts payable	\$ 67,510	\$ 245
Accrued wages and benefits	210,823	40,108
Intergovernmental payable	206,987	-
Interfund payable	<u>-</u>	<u>-</u>
Total liabilities	<u>485,320</u>	<u>40,353</u>
 <b>Deferred inflows of resources:</b>		
Property taxes	1,962,065	480,898
Payments in lieu of taxes	-	-
Unavailable revenue	<u>1,912,260</u>	<u>218,605</u>
Total deferred inflows of resources	<u>3,874,325</u>	<u>699,503</u>
 <b>Fund balances:</b>		
Nonspendable	5,294	-
Restricted	-	381,407
Committed	77,200	-
Assigned	826,876	-
Unassigned	<u>463,717</u>	<u>-</u>
Total fund balances	<u>1,373,087</u>	<u>381,407</u>
 Total liabilities, deferred inflows of resources, and fund balances	 \$ <u><u>5,732,732</u></u>	 \$ <u><u>1,121,263</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 2,211,840	\$ 258,549	\$ 1,373,681	\$ 5,608,760
1,048,834	-	172,749	5,189,606
-	-	11,340	200,331
-	-	17	432
241,361	256,528	285,457	1,477,596
-	-	-	7,332
-	-	8,229	13,523
-	-	-	225,000
<u>\$ 3,502,035</u>	<u>\$ 515,077</u>	<u>\$ 1,851,473</u>	<u>\$ 12,722,580</u>
\$ 221,618	\$ -	\$ 26,898	\$ 316,271
-	-	56,273	307,204
-	-	-	206,987
-	-	25,000	25,000
<u>221,618</u>	<u>-</u>	<u>108,171</u>	<u>855,462</u>
934,541	-	153,887	3,531,391
-	233,142	-	233,142
270,478	23,386	262,703	2,687,432
<u>1,205,019</u>	<u>256,528</u>	<u>416,590</u>	<u>6,451,965</u>
-	-	8,229	13,523
1,820,161	258,549	1,318,483	3,778,600
91,261	-	-	168,461
163,976	-	-	990,852
-	-	-	463,717
<u>2,075,398</u>	<u>258,549</u>	<u>1,326,712</u>	<u>5,415,153</u>
<u>\$ 3,502,035</u>	<u>\$ 515,077</u>	<u>\$ 1,851,473</u>	<u>\$ 12,722,580</u>

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# City of Willowick, Ohio

## Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

**December 31, 2013**

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Total Governmental Funds Balances \$ 5,415,153

*Amounts reported for governmental activities in the statement  
of net position are different because:*

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 31,510,072

Other long-term assets are not available to pay for current-  
period expenditures and therefore are unavailable revenue in the  
funds.

Property and other taxes	\$ 428,235
Municipal income taxes	1,069,838
Intergovernmental	997,254
Special assessments	7,332
Debt proceeds	30,532
Charges for services	<u>154,241</u>

Total 2,687,432

In the Statement of Activities, interest is accrued on outstanding  
bonds, whereas in governmental funds, an interest expenditure  
is reported when due. (17,318)

Long-term liabilities are not due and payable in the current  
period and are therefore not reported in the funds.

Notes payable	(2,100,000)
Loan payable	(397,228)
Compensated absences	<u>(1,148,322)</u>

Total (3,645,550)

*Net position of Governmental Activities* \$ 35,949,789

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

**For The Year Ended December 31, 2013**

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 2,035,940	\$ 499,002
Municipal income taxes	2,508,892	-
Other local taxes	224,408	-
Intergovernmental	1,397,496	99,729
Charges for services	430,755	240,670
License and permits	291,160	-
Fines and forfeitures	67,078	-
Investment income	3,319	-
Miscellaneous income	141,999	-
Total revenues	<u>7,101,047</u>	<u>839,401</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,478,137	972,620
Public health	101,426	-
Leisure time activities	828,110	-
Community development	312,243	-
Basic utility services	57,004	-
Transportation	264,404	-
General government	1,612,512	-
Capital outlay	-	-
Debt service:		
Principal retirement	5,840	-
Interest and fiscal charges	964	-
Total expenditures	<u>6,660,640</u>	<u>972,620</u>
Excess of revenues over (under) expenditures	<u>440,407</u>	<u>(133,219)</u>
Other financing sources (uses):		
Sale of assets	7,327	-
Issuance of debt	-	-
Transfers – in	-	-
Transfers – out	(420,000)	-
Total other financing sources (uses)	<u>(412,673)</u>	<u>-</u>
Net change in fund balance	27,734	(133,219)
Fund balance at beginning of year	<u>1,345,353</u>	<u>514,626</u>
Fund balance at end of year	\$ <u>1,373,087</u>	\$ <u>381,407</u>

The accompanying notes are an integral part of these financial statements.

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 967,933	\$ -	\$ 159,680	\$ 3,662,555
-	-	-	2,508,892
-	-	-	224,408
378,328	348,750	800,717	3,025,020
-	-	-	671,425
-	-	-	291,160
-	-	1,912	68,990
-	-	272	3,591
-	6,130	15,006	163,135
<u>1,346,261</u>	<u>354,880</u>	<u>977,587</u>	<u>10,619,176</u>
166,043	-	376,809	4,993,609
-	-	-	101,426
15,242	-	-	843,352
-	-	122,066	434,309
206,836	-	180,634	444,474
502,696	-	686,002	1,453,102
104,677	106,733	-	1,823,922
3,968	-	-	3,968
-	2,280,000	-	2,285,840
-	21,497	-	22,461
<u>999,462</u>	<u>2,408,230</u>	<u>1,365,511</u>	<u>12,406,463</u>
<u>346,799</u>	<u>(2,053,350)</u>	<u>(387,924)</u>	<u>(1,787,287)</u>
-	-	-	7,327
-	2,100,000	-	2,100,000
-	-	420,000	420,000
-	-	-	(420,000)
<u>-</u>	<u>2,100,000</u>	<u>420,000</u>	<u>2,107,327</u>
346,799	46,650	32,076	320,040
<u>1,728,599</u>	<u>211,899</u>	<u>1,294,636</u>	<u>5,095,113</u>
\$ <u>2,075,398</u>	\$ <u>258,549</u>	\$ <u>1,326,712</u>	\$ <u>5,415,153</u>

# City of Willowick, Ohio

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

### For The Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 320,040

*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$	114,042	
Contributed capital		1,160,631	
Depreciation		<u>(1,195,000)</u>	
Total			79,673

In the Statement of Activities, only the loss on the disposal of property and equipment is reported, whereas, in the Governmental Funds, the proceeds from the disposal increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the property and equipment. (37,540)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property and other taxes		84,245	
Municipal income taxes		277,407	
Intergovernmental		(81,271)	
Special assessments		3,688	
Charges for services		<u>35,858</u>	
Total			319,927

Repayment of bond, note, and loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal		2,285,840	
Interest and fiscal charges		<u>(134)</u>	
Total			2,285,706

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Position. (2,100,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences		52,679	
Claims and judgments		<u>100,000</u>	
Total			<u>152,679</u>

*Change in Net Position of Governmental Activities* \$ 1,020,485

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

### General Fund

### For The Year Ended December 31, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 2,023,400	\$ 2,023,400	\$ 2,035,940	\$ 12,540
Municipal income taxes	2,425,000	2,425,000	2,518,953	93,953
Other local taxes	220,000	220,000	222,939	2,939
Intergovernmental	1,216,450	1,216,450	1,437,766	221,316
Charges for services	420,080	420,080	439,406	19,326
Licenses and permits	291,125	291,125	289,418	(1,707)
Fines and forfeitures	65,200	65,200	67,078	1,878
Investment income	2,500	2,500	3,187	687
Miscellaneous income	29,100	29,100	140,445	111,345
Total revenues	<u>6,692,855</u>	<u>6,692,855</u>	<u>7,155,132</u>	<u>462,277</u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	3,552,135	3,572,510	3,472,201	100,309
Public health	110,000	105,000	101,426	3,574
Leisure time activities	884,646	904,811	849,487	55,324
Community development	334,968	318,798	309,621	9,177
Basic utility services	126,300	160,800	158,334	2,466
Transportation	269,651	268,845	263,963	4,882
General government	<u>1,686,223</u>	<u>1,657,336</u>	<u>1,572,498</u>	<u>84,838</u>
Total expenditures	<u>6,963,923</u>	<u>6,988,100</u>	<u>6,727,530</u>	<u>266,570</u>
Excess of revenue over (under) expenditures	<u>(271,068)</u>	<u>(295,245)</u>	<u>427,602</u>	<u>722,847</u>
<b>Other financing sources (uses):</b>				
Sale of assets	2,500	2,500	7,327	4,827
Advances-in	32,030	32,030	62,248	30,218
Advances-out	-	(30,218)	(30,218)	-
Transfers-out	<u>(320,000)</u>	<u>(420,000)</u>	<u>(420,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(285,470)</u>	<u>(415,688)</u>	<u>(380,643)</u>	<u>35,045</u>
Net change in fund balance	(556,538)	(710,933)	46,959	757,892
Fund balance at beginning of year	1,205,675	1,205,675	1,205,675	-
Outstanding encumbrances	<u>43,635</u>	<u>43,635</u>	<u>43,635</u>	<u>-</u>
Fund balance at end of year	\$ <u>692,772</u>	\$ <u>538,377</u>	\$ <u>1,296,269</u>	\$ <u>757,892</u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

### Fire Emergency Fund

#### For The Year Ended December 31, 2013

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	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 494,625	\$ 494,625	\$ 499,002	\$ 4,377
Intergovernmental	98,200	98,200	99,729	1,529
Charges for services	<u>251,500</u>	<u>251,500</u>	<u>266,846</u>	<u>15,346</u>
Total revenues	<u>844,325</u>	<u>844,325</u>	<u>865,577</u>	<u>21,252</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>999,485</u>	<u>1,022,271</u>	<u>987,710</u>	<u>34,561</u>
Net change in fund balance	(155,160)	(177,946)	(122,133)	55,813
Fund balance at beginning of year	518,335	518,335	518,335	-
Outstanding encumbrances	<u>2,659</u>	<u>2,659</u>	<u>2,659</u>	<u>-</u>
Fund balance at end of year	\$ <u>365,834</u>	\$ <u>343,048</u>	\$ <u>398,861</u>	\$ <u>55,813</u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Fund Net Position Proprietary Funds

**December 31, 2013**

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	Business-Type Activities
	<u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,207,357
Accounts receivable	<u>996,419</u>
Total current assets	<u>2,203,776</u>
Non-current assets:	
Depreciable capital assets, net	<u>5,431,487</u>
Total assets	<u>7,635,263</u>
Liabilities:	
Current liabilities:	
Accounts payable	11,015
Accrued wages and benefits	16,673
Intergovernmental payable	137,357
Interfund payable	200,000
Accrued interest payable	4,618
Accrued compensated absences	31,450
Notes payable	25,000
Loans payable	<u>8,657</u>
Total current liabilities	<u>434,770</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	35,096
Notes payable	535,000
Loans payable	<u>234,881</u>
Total long-term liabilities	<u>804,977</u>
Total liabilities	<u>1,239,747</u>
Net position:	
Net investment in capital assets	4,627,949
Unrestricted	<u>1,767,567</u>
Total net position	\$ <u>6,395,516</u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds

### For The Year Ended December 31, 2013

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	Business-Type Activities
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,506,993</u>
Operating expenses:	
Personal services	384,914
Contractual services	1,695,285
Depreciation	<u>151,407</u>
Total operating expenses	<u>2,231,606</u>
Operating income	<u>275,387</u>
Non-operating revenue (expenses):	
Property taxes	35,128
Grants revenue	34,507
Other revenue	1,687
Interest and fiscal charges	<u>(5,669)</u>
Total non-operating revenues (expenses)	<u>65,653</u>
Change in net position	341,040
Net position beginning of year	<u>6,054,476</u>
Net position end of year	\$ <u><u>6,395,516</u></u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Funds

### **For The Year Ended December 31, 2013**

	Business-Type Activities
	<u>Sewer</u>
<b><i>Increase (Decrease) in Cash and Cash Equivalents:</i></b>	
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 2,392,632
Cash payments for goods and services	(1,702,039)
Cash payments to employees for services	<u>(385,449)</u>
<i>Net cash provided by operating activities</i>	<u>305,144</u>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Property taxes	35,128
Grants revenue	34,507
Other revenue	<u>1,687</u>
<i>Net cash provided by non-capital financing activities</i>	<u>71,322</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from issuance of debt	560,000
Principal paid on debt	(607,316)
Interest paid	<u>(5,884)</u>
<i>Net cash used in capital and related financing activities</i>	<u>(53,200)</u>
Net increase in cash and cash equivalents	323,266
Cash and cash equivalents, beginning of year	<u>884,091</u>
Cash and cash equivalents, end of year	\$ <u><u>1,207,357</u></u>
<b><i>Reconciliation of Operating Income to Net Cash from Operating Activities:</i></b>	
Operating income	\$ 275,387
Adjustments:	
Depreciation	151,407
Changes in assets/liabilities:	
(Increase) decrease in accounts receivable	(114,361)
Increase (decrease) in accounts payable	7,551
Increase (decrease) in accrued wages and benefits	946
Increase (decrease) in compensated absences payable	(1,481)
Increase (decrease) in intergovernmental payable	<u>(14,305)</u>
Total adjustments	<u>29,757</u>
Net cash provided by operating activities	\$ <u><u>305,144</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Willowick, Ohio**

Statement of Fiduciary Net Position  
Fiduciary Funds

**For The Year Ended December 31, 2013**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>70,796</u>
Liabilities:	
Deposits held	\$ <u>70,796</u>

The accompanying notes are an integral part of these financial statements.

# City of Willowick, Ohio

## Notes To Basic Financial Statements

### **For The Year Ended December 31, 2013**

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#### **Note 1: The Reporting Entity**

The City of Willowick (“City”) is a home rule municipal corporation incorporated as a City in 1957 under the laws of the State of Ohio. The City operates under its own charter and is governed by a mayor-council form of government, which was adopted on May 6, 1952.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, and performs the judicial functions of the City. As the chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with six members elected from wards and the president of Council elected at large. Members of Council are elected to four-year terms. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials, services and other municipal purposes.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, firefighting and prevention, street maintenance and repairs, building inspection, parks and recreation, and wastewater.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The Willoughby-Eastlake City School District and the Willoughby-Eastlake Public Library have been excluded from the reporting entity because the City is not financially accountable for these organizations nor does the City approve the budget, the levying of taxes, or the issuance of debt for these organizations.

The City participates in two jointly governed organizations. These organizations are the Northeast Ohio Public Energy Council and the Lake County General Health District. These organizations are presented in Note 18 to the basic financial statements.

#### **Note 2: Summary of Significant Accounting Policies**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The most significant of the City’s accounting policies are described below.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

##### *Government-Wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of internal service funds is eliminated to avoid doubling up revenues and expenses. The City does not have an internal service fund. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business activity is self-financing or draws from the general revenues of the City.

##### *Fund Financial Statements*

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

#### **B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

*Governmental Funds* – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting (continued)**

The following are the City's major governmental funds:

*General Fund* – This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Fire Emergency Fund* – This fund is used to account for financial resources incurred in connection with ambulance and emergency services in the City.

*Capital Improvement Fund* – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by a proprietary fund).

*Municipal Tax Increment Equivalent Fund* – This fund is used to account for the debt payment activity related to the public infrastructure improvements at Shoreland Crossing.

*Proprietary Funds* – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds. The following is the City's major enterprise fund:

*Sewer Fund* – The sewer fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

*Fiduciary Funds* – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations. The City's only agency fund is used to account for security deposits.

#### **C. Measurement Focus**

##### *Government-Wide Financial Statements*

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position, except for fiduciary funds. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **C. Measurement Focus (continued)**

##### *Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. The governmental fund financial statements therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

#### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

##### *Revenues – Exchange and Non-Exchange Transactions*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is thirty-one days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **D. Basis of Accounting (continued)**

Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants, and rentals.

#### *Unearned Revenue*

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. The City does not have any unearned revenue at December 31, 2013.

#### *Deferred Outflows/Inflows of Resources*

In addition to assets, the financial statements that report financial position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2013, the City did not have any deferred outflows of resources.

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

#### *Expenses/Expenditures*

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department of each fund. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

#### *Tax Budget*

During the first City Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

#### *Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2013.

#### *Appropriations*

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year by an ordinance of City Council. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Budgetary Process (continued)**

##### *Lapsing of Appropriations*

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

##### *Encumbrances*

As part of formal budgetary control, purchase order, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

#### **F. Cash and Cash Equivalents**

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents". During fiscal year 2013, investments were limited to STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2013. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amounted to \$3,319, which includes \$2,645 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as "equity in pooled cash and cash equivalents".

#### **G. Inventory**

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **G. Inventory (continued)**

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure/expense when used.

#### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed. At December 31, 2013, the City did not have any prepaid items.

#### **I. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$3,000. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, the Vine Street beautification, traffic signals, decorative street lights, storm sewers, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated over the estimated useful lives, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land & building improvements	15-20 years
Machinery and equipment	5-30 years
Infrastructure	25-70 years

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **J. Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables.” Interfund loans which do not represent available expendable resources are equally offset by a fund balance reserve account reported as nonspendable which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### **K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “matured compensated absences” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

#### **L. Payables, Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, long-term notes and loans are recognized as a liability on the fund financial statements when due.

#### **M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **M. Fund Balance (continued)**

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted:*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

***Committed:*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned:*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance. The finance director is the City’s delegated official.

***Unassigned:*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned), amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **N. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### **O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the sewer operations. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

#### **P. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

#### **Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of these transactions occurred during 2013.

#### **R. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### **S. Contributions of Capital**

Contributions of capital in the governmental activities and proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. During 2013, the City received \$1,160,631 in contributions of capital assets from the Ohio Department of Transportation for signalization improvements.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **T. Comparative Data/Reclassifications**

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2012 financial statements in order to conform to the 2013 presentation.

#### **U. Subsequent Events**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 17, 2014, the date the financial statements were available to be issued.

### **Note 3: Change in Accounting Principles**

For 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62*.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending vs. discrete presentation), and certain disclosure requirements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated into the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### For The Year Ended December 31, 2013

#### Note 4: Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all nonmajor governmental funds are presented below:

<u>Fund Balances (Deficits)</u>	<u>General</u>	<u>Fire Emergency</u>	<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Inventory	\$ <u>5,294</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,229</u>	\$ <u>13,523</u>
Total nonspendable	<u>5,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,229</u>	<u>13,523</u>
Restricted:						
Fire emergency	-	381,407	-	-	-	381,407
Debt service payments	-	-	-	258,549	14	258,563
Street construction	-	-	-	-	275,699	275,699
maintenance & repair	-	-	-	-	88,481	88,481
State highway	-	-	-	-	545,518	545,518
Street lighting	-	-	-	-	108,490	108,490
Permissive license fee	-	-	-	-	-	-
DUI enforcement & education	-	-	-	-	10,639	10,639
Drug law enforcement	-	-	-	-	1,252	1,252
Senior citizen center	-	-	-	-	223,766	223,766
Emergency management	-	-	-	-	32,868	32,868
Victim assistance grant	-	-	-	-	11	11
Homeland security	-	-	-	-	1	1
CDBG	-	-	-	-	11	11
Law enforcement trust	-	-	-	-	4,995	4,995
Law enforcement continuing training	-	-	-	-	15	15
Police pension	-	-	-	-	26,723	26,723
Capital improvements	-	-	1,820,161	-	-	1,820,161
Total restricted	<u>-</u>	<u>381,407</u>	<u>1,820,161</u>	<u>258,549</u>	<u>1,318,483</u>	<u>3,778,600</u>
Committed:						
Capital improvements	-	-	91,261	-	-	91,261
Compensated absences	69,560	-	-	-	-	69,560
Purchases on order	7,640	-	-	-	-	7,640
Total committed	<u>77,200</u>	<u>-</u>	<u>91,261</u>	<u>-</u>	<u>-</u>	<u>168,461</u>
Assigned:						
Capital improvements	-	-	163,976	-	-	163,976
Year 2014 appropriations	816,245	-	-	-	-	816,245
Purchases on order	10,631	-	-	-	-	10,631
Total assigned	<u>826,876</u>	<u>-</u>	<u>163,976</u>	<u>-</u>	<u>-</u>	<u>990,852</u>
Unassigned						
	<u>463,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,717</u>
Total fund balance	\$ <u>1,373,087</u>	\$ <u>381,407</u>	\$ <u>2,075,398</u>	\$ <u>258,549</u>	\$ <u>1,326,712</u>	\$ <u>5,415,153</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### **Note 5: Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. A Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual is presented for the general fund and fire emergency fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute.

The major difference between the budgetary basis and the GAAP basis (generally accepted accounting principles) are:

- 1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
- 4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budgetary) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the fire emergency fund.

#### Net Change in Fund Balance

	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ 27,734	\$ (133,219)
Increase (decrease) due to:		
Revenue accruals	54,085	26,176
Advances-in	62,248	-
Expenditure accruals	(44,685)	(12,431)
Advances-out	(30,218)	-
Encumbrances outstanding	(43,635)	(2,659)
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>21,430</u>	<u>-</u>
Budgetary basis	\$ <u><u>46,959</u></u>	\$ <u><u>(122,133)</u></u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 6: Deposits and Investments**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 6: Deposits and Investments (continued)**

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

#### ***Deposits***

***Custodial credit risk*** is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$6,840,696 (including petty cash) and the bank balance was \$6,888,764. Of the bank balance, \$2,250,843 was covered by the federal depository insurance. The remaining uncovered balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

#### ***Investments***

Investments are reported at fair value. As of December 31, 2013, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAR Ohio	\$ <u>46,217</u>	53.4

***Interest rate risk*** arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. During 2013, no investments have been purchased with a life greater than five years.

***Custodial risk*** for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 6: Deposits and Investments (continued)**

*Credit risk* is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The City's investment in Star Ohio carries an "AAAm" money market rating by Standard & Poor's.

*Concentration of credit risk* is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2013:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
STAR Ohio	100%

### **Note 7: Receivables**

#### **A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections for 2012 taxes. Property tax payments received during 2013 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2012 affecting collections beginning in 2013.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31, if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

Tangible personal property used in business (except for public utilities) was assessed for *ad valorem* taxation purposes and was phased out – the assessment percentage for all property, including inventory, used in business was zero for 2013. The tax temporarily applied to telephone and inter-exchange telecommunications companies and was phased out to zero percent for 2011. Amounts paid by multi-county taxpayers were due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment was due April 30, if paid semi-annually, the first payment was due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes did not attach as a lien on the personal property.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

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### Note 7: Receivables (continued)

#### A. Property Taxes (continued)

While property tax rates are levied by the City, the County Auditor is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the county, including the City. The county periodically remits to the City its portion of the taxes collected.

The assessed values per category applicable to the 2013 tax collections are as follows:

Real property	\$ 242,772,750
Public utility property	<u>2,792,020</u>
Total valuation	\$ <u>245,564,770</u>

The full tax rate for all City operations for the year ended December 31, 2013, was \$19.50 per \$1,000 of assessed value.

#### B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 87.5 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are received by the general fund.

#### C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 431,161
Homestead and rollback	382,639
Gasoline\motor vehicle license tax	261,554
Estate tax	13,701
Permissive tax	7,496
TIF	233,142
Grants	144,262
Other	<u>3,641</u>
Total governmental activities	\$ <u>1,477,596</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### Note 8: Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Construction in process	\$ 150,180	\$ -	\$ (150,180)	\$ -
Land	<u>956,842</u>	<u>-</u>	<u>-</u>	<u>956,842</u>
Total nondepreciable capital assets	<u>1,107,022</u>	<u>-</u>	<u>(150,180)</u>	<u>956,842</u>
Capital assets being depreciated:				
Land improvements	821,222	6,292	-	827,514
Building and improvements	9,684,055	6,891	-	9,690,946
Machinery and equipment	5,661,392	100,859	(299,611)	5,462,640
Infrastructure:				
Roadways	21,461,050	-	-	21,461,050
Sidewalks	1,928,663	-	-	1,928,663
Drive aprons	1,594,988	-	-	1,594,988
Curbs	2,604,907	-	-	2,604,907
Fencing/masonry	324,440	-	-	324,440
Vine Street beautification	482,774	-	-	482,774
Traffic signals	47,849	1,310,811	(47,849)	1,310,811
Decorative street lights	547,490	-	-	547,490
Storm sewers	<u>1,785,632</u>	<u>-</u>	<u>-</u>	<u>1,785,632</u>
Total capital assets being depreciated	<u>46,944,462</u>	<u>1,424,853</u>	<u>(347,460)</u>	<u>48,021,855</u>
Less accumulated depreciation:				
Land improvements	(486,160)	(45,590)	-	(531,750)
Building and improvements	(4,135,501)	(226,887)	-	(4,362,388)
Machinery and equipment	(3,703,032)	(289,118)	297,415	(3,694,735)
Infrastructure:				
Roadways	(6,313,662)	(429,221)	-	(6,742,883)
Sidewalks	(545,648)	(38,573)	-	(584,221)
Drive aprons	(419,071)	(31,900)	-	(450,971)
Curbs	(587,523)	(52,099)	-	(639,622)
Fencing/masonry	(51,912)	(12,978)	-	(64,890)
Vine Street beautification	(135,177)	(19,311)	-	(154,488)
Traffic signals	(10,591)	(1,914)	12,505	-
Decorative street light	(129,032)	(21,900)	-	(150,932)
Storm Sewers	<u>(66,236)</u>	<u>(25,509)</u>	<u>-</u>	<u>(91,745)</u>
Total accumulated depreciation	<u>(16,583,545)</u>	<u>(1,195,000)</u>	<u>309,920</u>	<u>(17,468,625)</u>
Net capital assets being depreciated	<u>30,360,917</u>	<u>229,853</u>	<u>(37,540)</u>	<u>30,553,230</u>
Governmental activities capital assets, net	\$ <u>31,467,939</u>	\$ <u>229,853</u>	\$ <u>(187,720)</u>	\$ <u>31,510,072</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### Note 8: Capital Assets (continued)

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Machinery and equipment	\$ 605,773	\$ -	\$ (43,125)	\$ 562,648
Infrastructure:				
Sanitary sewers	4,302,307	-	-	4,302,307
Storm sewers	<u>5,814,149</u>	<u>-</u>	<u>-</u>	<u>5,814,149</u>
Total capital assets being depreciated	<u>10,722,229</u>	<u>-</u>	<u>(43,125)</u>	<u>10,679,104</u>
Less accumulated depreciation:				
Machinery and equipment	(419,475)	(19,125)	43,125	(395,475)
Infrastructure:				
Sanitary sewers	(2,641,470)	(49,401)	-	(2,690,871)
Storm sewers	<u>(2,078,390)</u>	<u>(82,881)</u>	<u>-</u>	<u>(2,161,271)</u>
Total accumulated depreciation	<u>(5,139,335)</u>	<u>(151,407)</u>	<u>43,125</u>	<u>(5,247,617)</u>
Business-type activities capital assets, net	\$ <u>5,582,894</u>	\$ <u>(151,407)</u>	\$ <u>-</u>	\$ <u>5,431,487</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 203,115
Leisure time activities	130,911
Community development	41,801
Basic utility services	1,958
Transportation	624,234
General government	<u>192,981</u>
Total depreciation expense	<u>\$ 1,195,000</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### Note 9: Long-Term Obligations

Changes in long-term obligations during the year ended December 31, 2013, consisted of the following:

	<u>Balance</u> <u>12/31/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Various purpose improvement notes	\$ 2,000,000	\$ 2,100,000	\$ (2,000,000)	\$ 2,100,000	\$ 250,000
Final judgment notes	280,000	-	(280,000)	-	-
OPWC loan payable – North Lake Shore Blvd / Glen Arden Sewer Replacement, 0%	397,228	-	-	397,228	9,931
Capital lease payable	5,840	-	(5,840)	-	-
Claims and judgments	100,000	-	(100,000)	-	-
Compensated absences	<u>1,201,001</u>	<u>527,954</u>	<u>(580,633)</u>	<u>1,148,322</u>	<u>668,090</u>
Total governmental activities	\$ <u>3,984,069</u>	\$ <u>2,627,954</u>	\$ <u>(2,966,473)</u>	\$ <u>3,645,550</u>	\$ <u>928,021</u>
Business-Type Activities:					
Various Purpose Improvement Notes	\$ 590,000	\$ 560,000	\$ (590,000)	\$ 560,000	\$ 25,000
OPWC loan payable – Euclid Avenue Sewer, 0%, maturing 7/1/2025	89,155	-	(7,132)	82,023	3,565
OPWC loan payable – Sanitary Sewer Rehabilitation, 0%, maturing 1/1/2028	71,544	-	(4,770)	66,774	2,385
OPWC loan payable – Thomas Street Sanitary Sewer Replacement, 0%, maturing 7/1/2031	100,155	-	(5,414)	94,741	2,707
Compensated absences	<u>68,027</u>	<u>26,232</u>	<u>(27,713)</u>	<u>66,546</u>	<u>31,450</u>
Total business-type activities	\$ <u>918,881</u>	\$ <u>586,232</u>	\$ <u>(635,029)</u>	\$ <u>870,084</u>	\$ <u>65,107</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Notes payable will be paid from the fund which received the original proceeds. The governmental activities OPWC loans will be paid from the debt service fund and the business-type OPWC loans will be paid from the sewer user fees collected. The claims and judgments were paid from the capital improvement fund.

Long-term notes payable at December 31, 2013, consisted of various purpose improvement notes. The notes have a term of one year or less. The various purpose improvement notes were issued to refinance notes issued to open public streets, to improve the municipal sewerage system, and to pay a settlement of a claim approved by a court. The notes are dated March 5, 2013 and are due on March 5, 2014 at an interest rate of 1.00%. These notes are reported as long-term obligations as they were refinanced on March 4, 2014 with various purpose improvement notes. See Note 17 for additional information.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### Note 9: Long-Term Obligations (continued)

The annual debt service requirements are as follows:

Year	OPWC Loans Payable Principal			
	Governmental	Business-Type		
	North Lake Shore Blvd / Glen Arden Sewer	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer
2014	\$ 9,931	\$ 3,565	\$ 2,385	\$ 2,707
2015	19,862	7,133	4,770	5,414
2016	19,862	7,133	4,770	5,414
2017	19,862	7,133	4,770	5,414
2018	19,862	7,133	4,770	5,414
2019-2023	99,310	35,665	23,850	27,070
2024-2028	99,310	14,261	21,459	27,070
2029-2033	99,310	-	-	16,238
2034	9,919	-	-	-
Total	\$ <u>397,228</u>	\$ <u>82,023</u>	\$ <u>66,774</u>	\$ <u>94,741</u>

### Note 10: Lease Obligations

The City entered into a lease for certain technology equipment. This lease does not meet the criteria of a capital lease in accordance with the “Leases” topic of Finance Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

The following is a schedule of the future minimum lease payments required under the operating lease at year-end:

Year	Operating Leases
	Governmental Lease Payments
2014	\$ 15,434
2015	14,247
2016	14,247
2017	1,187
Total minimum lease payments	\$ <u>45,115</u>

Rental expense related to operating leases for equipment totaled \$11,872 for governmental funds for the year ended December 31, 2013.

In 2008, the City entered into a capital lease for the acquisition of telephone equipment. The lease met the criteria of a capital leases with the “Leases” topic of the FASB ASC, which defines a capital lease generally as one which transfers both benefits and risks of ownership to the lessee. The lease expired in 2013 and the final principal payment totaled \$5,840 in the governmental activities.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 11: Employee Benefits – Compensated Absences**

Employees earn vacation and sick leave at different rates which are affected by length of service. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement, an employee can be paid for his/her accumulated hours of sick leave up to 960 hours, except fire department employees, who are part-time and do not accumulate sick leave. Upon retirement, termination, or death of the employee, vacation is paid for the total time accumulated for the employee.

### **Note 12: Pension Plans**

#### **A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. For the year ended December 31, 2013, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. Public safety and law enforcement members contributed 12.0 percent and 12.6 percent, respectively. The employer contribution rate for state and local employers for 2013 was 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2013, 2012, and 2011 were \$360,611, \$274,905, and \$288,249, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 92.5 percent has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 12: Pension Plans (continued)**

#### **B. Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. The report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

From January 1, 2013 through July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's police pension contributions to the OP&F for the years ended December 31, 2013, 2012, and 2011 were \$280,233, \$222,308, and \$240,211, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 90.4 percent has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

#### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or the Police and Fire Pension Fund are covered by Social Security. The City's is required to pay 6.2 percent of wages paid into the Social Security System.

### **Note 13: Post-Employment Benefits**

#### **A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 13: Post-Employment Benefits (continued)**

#### **A. Ohio Public Employees Retirement System (continued)**

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 1.0 percent during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0 percent during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2.0 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2013, 2012, and 2011 were \$27,727, \$109,955, and \$115,291, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 92.5 percent has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0 percent of the employer contributions toward the health care fund after the end of the transition period.

## City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2013**

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#### **Note 13: Post-Employment Benefits (continued)**

##### **B. Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing, multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 4.69 percent of covered payroll from January 1, 2013 through May 31, 2013 and 2.85 percent of covered payroll from June 1, 2013 through December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 13: Post-Employment Benefits (continued)**

#### **B. Ohio Police and Fire Pension Fund (continued)**

The City's police contributions to OP&F for the years ended December 31, 2013, 2012, and 2011 were \$344,042, \$340,000, and \$367,381, respectively, of which \$63,809, \$117,692, and \$127,170, respectively, was allocated to the health care plan. The full amount has been contributed for 2012 and 2011. For 2013, 90.4 percent has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

### **Note 14: Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2013, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 23,611,175
Boilers and machinery	23,611,175
Inland marine	435,598
Crime	100,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	10,000,000

No settlements exceeded the insurance coverage in any of the prior three fiscal years.

For the current fiscal year the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The intent of the GRRP is to achieve the benefit of reduced premium for the City by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all the cities in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than the individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRRP. A participant will then either receive money from or be required to contribute to the "Equity Funding Pool." This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRRP.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2013

### Note 15: Interfund Activity

A. Interfund transfers for the year ended December 31, 2013, consisted of the following:

	<u>Transfer from</u>
	General
<u>Transfer to</u>	<u>Fund</u>
Nonmajor governmental funds	\$ <u>420,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service. The City had no transfers that do not occur on a regular basis. No transfers were inconsistent with the purpose of the fund making the transfer. In addition, each of the above transfers is in compliance with the Ohio Revised Code.

B. Interfund activity for the year ended December 31, 2013, consisted of the following:

	<u>Interfund Payable</u>		
	<u>Governmental</u>	<u>Sewer</u>	
<u>Interfund Receivable</u>	<u>Funds</u>	<u>Fund</u>	<u>Total</u>
General fund	\$ <u>25,000</u>	\$ <u>200,000</u>	\$ <u>225,000</u>

The interfund receivables and payables listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis.

### Note 16: Contingencies

The City is involved in various litigation, claims, and inquiries most of which are routine to the nature of a municipality. It is the opinion of the City's management that the ultimate settlement of such litigation will not result in a material adverse effect on the City's financial position and results of operations.

### Note 17: Subsequent Events

On March 4, 2014, the City issued Various Purpose Improvement Notes in the amount of \$3,185,000 with an interest rate of 0.75%, maturing on March 4, 2015, to retire previously outstanding Various Improvement Notes and to replace a water main and perform street improvements on East 330<sup>th</sup> Street. Original notes were issued to open public streets Shoreland Circle and Lakewick Lane, to improve the municipal sewerage system and to pay a settlement of claims approved by a court.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2013**

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### **Note 18: Jointly Governed Organization**

*Northeast Ohio Public Energy Council* – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 134 members in 174 communities in 10 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the ten-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2013. Financial information can be obtained by contacting NOPEC, 31320 Solon Rd, Suite 20, Solon, Ohio 44139.

*Lake County General Health District* – The Lake County General Health District (the “District”), a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five-year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities participate in the District. In 2013, the City contributed \$101,426 for the operation of the District.

### **Note 19: Other Significant Commitments**

Other significant commitments include the encumbrances outstanding for the general fund, fire emergency fund, capital improvement fund, and other governmental funds were as follows:

	<u>Encumbrances</u>
General fund	\$ 18,271
Fire emergency fund	2,454
Capital improvement fund	550,821
Nonmajor governmental funds	<u>12,943</u>
Total other significant commitments	\$ <u>584,489</u>

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**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Members of the City Council  
Willowick, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members of the City Council  
Willowick, Ohio

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ciuni & Parichi, Inc.*

Cleveland, Ohio  
June 17, 2014



# Dave Yost • Auditor of State

**CITY OF WILLOWICK**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 15, 2014**